

Message Text

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E.O. 11652: N/A
TAGS: AORG, IAEA
SUBJECT: EXPENSES RELATING TO IAEA SAFEGUARDS ACTIVITIES

REF: A) VIENNA 4637, B) VIENNA 4663

1. FOLLOWING REQUEST BY SEVERAL REPRESENTATIVES AT RECENT MEETINGS OF ADMINISTRATIVE AND BUDGETARY AGENCY HAS PREPARED A REPORT DEALING WITH THE COST ALLOCATION PRACTICE FOR THE FINANCING OF AGENCY'S SAFEGUARDS ACTIVITIES (GOV/INF/342). REPORT NOTES THAT THE AGENCY'S STATUTE DOES NOT RPT NOT DEFINE PRECISELY THE BOUNDARY BETWEEN THE TWO MAIN BUDGET CATEGORIES NAMELY, THOSE DESCRIBED IN ARTICLE XIV.B.1 AND XIV.B.2, OR THE RELATIONSHIP BETWEEN ARTICLE XIV.B.1(A) AND (B). MOREOVER, BOTH THE BOARD OF GOVERNORS AND THE GENERAL CONFERENCE HAVE APPLIED ARTICLE XIV IN A FLEXIBLE MANNER, FOR EXAMPLE,
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THE COSTS OF HEADQUARTERSSTAFF DEALING WITH TECHNICAL ASSISTANCE HAVE BEEN INCLUDED IN THE REGULAR BUDGET RATHER THAN IN THE OPERATIONAL BUDGET. FURTHERMORE, THE COSTS OF SAFEGUARDS STAFF HAVE BEEN INCLUDED UNDER THE SAFEGUARDS COMPONENT OF THE BUDGET, ALTHOUGH "COSTS OF THE STAFF OF THE AGENCY" AND "COSTS OF IMPLEMENTING...SAFEGUARDS..." ARE DEALT WITH SEPARATELY IN ARTICLE XIV.B.1.

2. REPORT THEN REFERS TO DISCUSSIONS IN SAFEGUARDS COMMITTEE (1970), WHICH RECOMMENDED THAT ADMINISTRATIVE EXPENSES OF AGENCY BE DIVIDED INTO: A) NON-SAFEGUARDS EXPENSES, WHICH SHOULD INCLUDE ALL EXPENSES REQUIRED TO BE APPORTIONED AMONG MEMBERS IN ACCORDANCE WITH ARTICLE XIV.D OF STATUTE EXCEPT COSTS RELATING TO THE SAFEGUARDS ACTIVITIES OF THE AGENCY; AND B) SAFEGUARDS EXPENSES, WHICH SHOULD INCLUDE ALL COSTS RELATING TO THE SAFEGUARDS ACTIVITIES OF THE AGENCY. (LANGUAGE USED DOES NOT RPT NOT FOLLOW PRECISELY THE LANGUAGE OF THE STATUTE AND THESE TWO CATEGORIES DO NOT RPT NOT CORRESPOND PRECISELY TO THE BUDGET CATEGORIES DESCRIBED IN ARTICLE XIV.B.1(A) AND ARTICLE XIV.B.1(B) OF AGENCY'S STATUTE.)

3. OF THE MANY DOCUMENTS WHICH THE SAFEGUARDS COMMITTEE CONSIDERED WHEN DISCUSSING THE FINANCING OF SAFEGUARDS, ONLY A FEW ELABORATE ON THE MEANING OF "ALL EXPENSES RELATING TO THE SAFEGUARDS ACTIVITIES OF THE AGENCY." THE INTERPRETATION IN THE RELEVANT DOCUMENTS IS THAT SAFEGUARDS COSTS COMPRISE DEVELOPMENT AND OPERATIONS COSTS AND THE COSTS FOR SUPPORTING SERVICES, NAMELY, LEGAL SERVICES, COMPUTER SERVICES AND LABORATORY SERVICES, WHICH ARE DIRECTLY ATTRIBUTABLE TO SAFEGUARDS. CONSISTENT WITH THIS INTERPRETATION, THERE WAS ESTABLISHED A PRACTICE WHEREBY, IN BUDGET DOCUMENTS FOR CONSIDERATION AND APPROVAL BY THE

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BOARD AND THE GENERAL CONFERENCE, THE MEANING OF THE PHRASE "ALL EXPENSES RELATING TO THE SAFEGUARDS ACTIVITIES OF THE AGENCY" WAS DEFINED BY THE PROGRAM BUDGETING APPROACH. (AGENCY ADOPTED PROGRAM BUDGETING APPROACH IN 1971, WHEREBY CERTAIN COSTS HAVE BEEN ALLOCATED TO VARIOUS PROGRAMS IN ACCORDANCE WITH GENERALLY ACCEPTED PRINCIPLES OF PROGRAM BUDGETING.)

4. AGENCY REPORT NOTES THAT MAJOR CONSEQUENCES FOR THE OVERALL BUDGET STRUCTURE OF THE AGENCY WOULD RESULT IF ADDITIONAL COSTS, SUCH AS THOSE INCURRED UNDER "POLICY-MAKING ORGANS", "EXECUTIVE MANAGEMENT AND TECHNICAL PROGRAM PLANNING", "ADMINISTRATION" AND "GENERAL SERVICES" WERE ALLOCATED TO THE AGENCY'S VARIOUS PROGRAM ACTIVITIES: A) IN CONTRAST TO THE PRESENT RELATIVELY SIMPLE SYSTEM, WHICH IS BASED ON A "SINGLE DIRECT ALLOCATION" TO THE PROGRAMS SUPPORTED BY THE SEVEN ACTIVITIES FOR WHICH COSTS ARE CURRENTLY ALLOCATED, A COMPLEX SERIES OF OPERATIONS INVOLVING ALLOCATION OF "COSTS ONOSTS" WOULD HAVE TO BE CARRIED OUT. IT WOULD BE NECESSARY FIRST TO ALLOCATE ADMINISTRATIVE AND GENERAL SERVICE COSTS TO ALL ACTIVITIES, INCLUDING THE SEVEN SUPPORTING ACTIVITIES

OF WHICH THE COSTS ARE NOW BEING DIRECTLY ALLOCATED. THEN, THE COSTS OF THESE SEVEN SUPPORTING ACTIVITIES WOULD HAVE TM BE ALLOCATED TO PROGRAM ACTIVITIES. APART FROM OBJECTIONS OF PRINCIPLE TO SUCH A SYSTEM OF COST ALLOCATION, THIS WOULD GREATLY COMPLICATE THE ALLOCATING OF COSTS AND CAUSE A SUBSTANTIAL INCREASE IN THE RELATED WORK-LOAD; B) MORE IMPORTANTLY, THE PRINCIPLES AND OBJECTIVES OF PROGRAM BUDGETING WOULD BE LOST OR SO DILUTED THAT PROGRAM BUDGETING WOULD BECOME ALMOST MEANINGLESS. THE ABILITY TO

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MEASURE PERFORMANCE AGAINST COSTS IN A MEANINGFUL MANNER WOULD NO RPT NO LONGER EXIST; AND C) THE PREPARATION OF REALISTIC BUDGET ESTIMATES AND THE MAKING OF TRANSFERS OF FUNDS BETWEEN APPROPRIATION SECTIONS WOULD BECOME MORE DIFFICULT, THE ADMINISTRATION OF THE FINANCIAL PLAN WOULD BE SUBSTANTIALLY WEAKENED AND THE INFORMATION IN THE BUDGETARY PERFORMANCE SCHEDULES IN THE AGENCY'S ACCOUNTS WOULD BE LESS MEANINGFUL.

5. REPORT NOTES THAT DIRECTOR GENERAL WILL CONTINUE WITH HIS EFFORTS TO IDENTIFY COSTS WHICH CAN BE ALLOCATED TO PARTICULAR PROGRAMS. IN THIS CONNECTION, IT SHOULD BE NOTED THAT, IN THE BUDGET ESTIMATES FOR 1979, ALL THOSE ADDITIONAL COSTS THAT RESULT FROM PLANNED SAFEGUARDS REQUIREMENTS, SUCH AS "THE LABORATORY" AND "COMPUTER SERVICES", ARE ALLOCATED TO THE "SAFEGUARDS" PROGRAM. MOREOVER, PREPARATIONS ARE BEING MADE FOR THE ALLOCATION IN 1980 OF THE COSTS OF CONFERENCE SERVICES, WHICH ARE AT PRESENT INCLUDED UNDER "ADMINISTRATION" AND AMOUNTED TO A

TOTAL OF ABOUT \$600,000 IN THE 1978 BUDGET.

6. AGENCY REPORT CONCLUDES THAT IT HAS BEEN APPLYING
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PRINCIPLE OF PROGRAM BUDGETING FOR MANY YEARS, WHICH IS
CONSISTENT WITH THE GUIDING PRINCIPLES ESTABLISHED BY THE
GENERAL CONFERENCE FOR THE FINANCING OF SAFEGUARDS.
APPLICATION OF THESE PRINCIPLES HAS BEEN IN ACCORDANCE WITH
THE STATUTE AND HAS BEEN FOUND ACCEPTABLE BY THE GENERAL
CONFERENCE, THE BOARD, THE AGENCY'S EXTERNAL AUDITOR AND
THE VARIOUS UNITED NATIONS BODIES DEALING WITH SUCH
MATTERS. THE ALLOCATION OF SUBSTANTIAL ADDITIONAL COSTS,
SUCH AS ALL POLICY, ADMINISTRATION AND GENERAL SERVICE
COSTS, WOULD RESULT IN A SIGNIFICANTLY MORE COMPLEX BUDGET
AND ACCOUNTING OPERATION INVOLVING A LARGE WORK-LOAD IN-
CREASE AND IN A WEAKENING OF BUDGET IMPLEMENTATION AND
FINANCIAL REPORTING.

7. MISSION INTENDS ARGUE STRONGLY IN FAVOR OF PRESENT
SYSTEM USED BY AGENCY SECRETARIAT IN ALLOCATING COSTS FOR
SAFEGUARDS EXPENSES. KIRK

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